SAFEWAY STORES, INCORPORATED • ANNUAL REPORT • 1971

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SAN FRANCISCO—Sister city Sydney on back cover

To Safeway Shareholders, Customers and Employees:

Despite problems associated with the troubled economy, Safeway had a very good year in 1971. Annual sales were well over the $5 billion mark, a level heretofore achieved by only two other retail organizations. The total of $5.36 billion for 52 weeks was 10.3% over 1970, a 53-week year and our previous best.

More significantly, profits kept pace with sales gains. Net income came to $80.2 million, or $3.14 per share, versus $68.9 million and $2.70, respectively, in 1970 — a gain of 16.4%. Although added sales provided the leverage, an important factor in the profit picture was a wide-ranging program to control operating expenses in the face of ever-increasing costs for labor and merchandise.

The gain in dollar sales volume resulted essentially from added tonnage of merchandise moved across our shelves. Despite inflation our over-all price levels, even before government controls, showed relatively little change from the prior year due to continued extension of our full-scale discount program. Consumers are responding to this program, and we are gratified by their increasing patronage.

Previously-announced plans for expansion into new territory are proceeding on schedule. We now have 13 stores in the Houston area, with approximately 7 more planned for 1972. In the Toronto area of Canada, 6 new stores are scheduled for 1972 openings to augment the 5 now operating there. We have recently entered the important Tidewater area of Virginia, and plan many more outlets in that vicinity. Overseas, we will shortly pass the 100-store mark as the result of continuing expansion in the United Kingdom, West Germany and Australia.

Our strong store building program will also continue in existing areas (see Financial Review). Along with supporting facilities for warehousing, supply and transportation, total 1972 capital expenditures will run approximately $215 million.

Several of our consumer-help programs have been continued and expanded in 1971. For example: We have open dating on all perishable and semi-perishable private label products, to reassure customers of freshness; we have extended our unit pricing program to a number of additional areas; we are undertaking a nutritional labeling program for our private brands; we are assisting with re-

Messrs. Mitchell, Reynolds, and Magowan inspect operation of the latest checkstand equipment in a new Safeway store.

cycling projects in several areas; we are helping with local pollution control programs. We do these things not because "consumerism" is a currently-popular slogan, but primarily because meeting public needs is good business. One of our advertising phrases —"We live here, too"— perhaps best explains this philosophy of involvement.

1971 saw year-end retirements of two of our most highly respected retail executives. Vice President Robert L. Campbell completed 40 years of distinguished Safeway service, the last 12 as the manager of our important Denver Division. Walter J. Kraft, dean of our retail division managers, retired as regional manager for all of our Canadian operations. His career has spanned the entire 45 years since Safeway's incorporation. Mr. Kraft will remain on the Board of Directors of Canada Safeway Limited.

Realizing that inflation is a well recognized threat to economic growth, we have wholeheartedly supported the President's wage-price program. Extensive internal procedures have been set up to insure full compliance at every level, and to give all required information to our customers and employees. Hopefully, concerted efforts by business, labor and government will accelerate the return to a healthy, growing economy. Virtually all ingredients are present; a further gain in consumer confidence, which indeed seems to be materializing, should provide the necessary spark. We look forward to a successful 1972.

Quentin Reynolds
Chairman of the Board and Chief Executive Officer

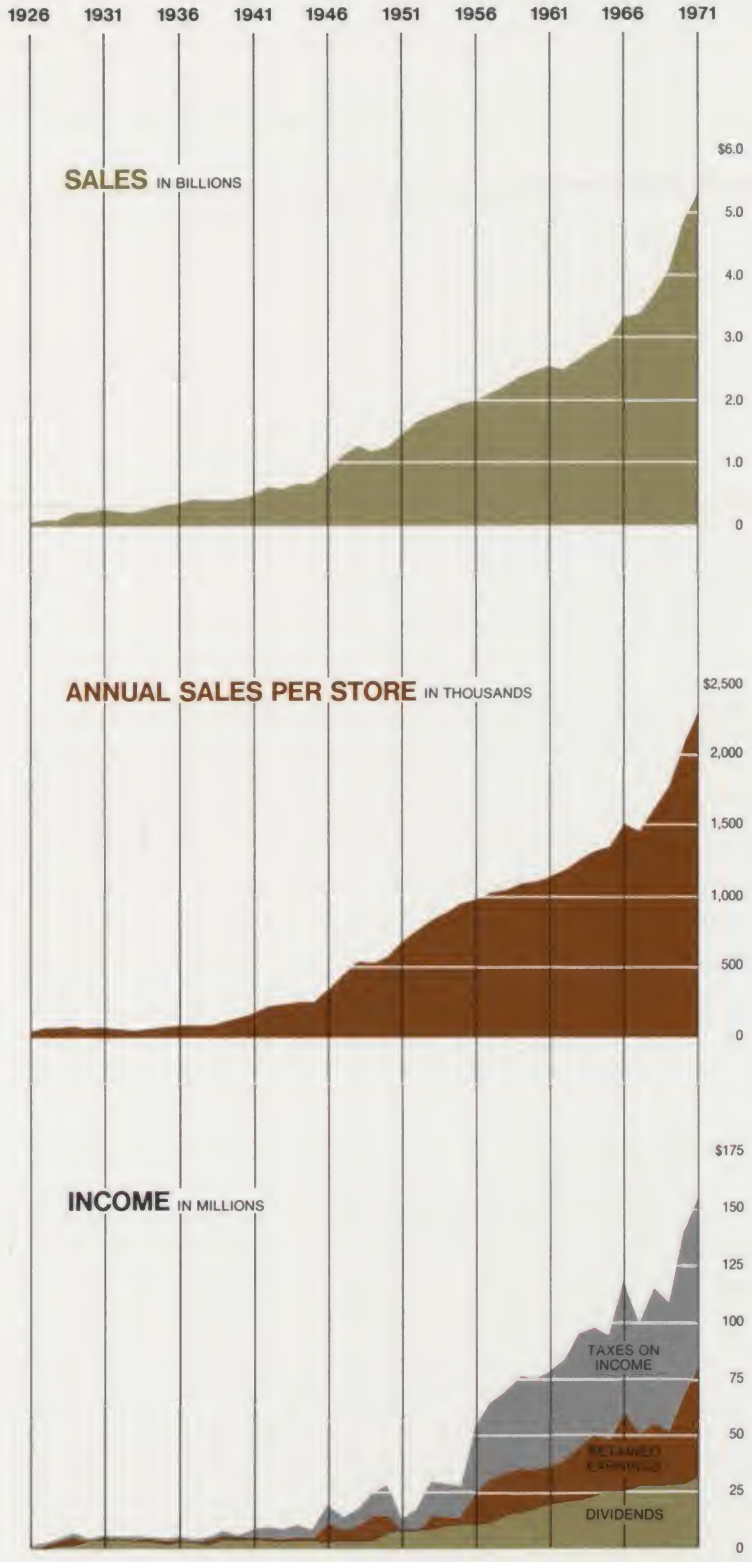
W. S. Mitchell
President

Robert A. Magowan
Chairman of the Executive Committee

HIGHLIGHTS

		1971 (52 Weeks)	1970 (53 Weeks)
Operating Results[1]	Sales	$5,358,837	4,860,167
	Income before provision for income taxes	155,127	140,462
	Provision for income taxes	74,948	71,570
	Net income	80,179	68,892
	Net income as a percent of sales	1.50%	1.42
Distribution of Earnings[1]	Dividends to common stockholders	$ 33,200	29,315
	Earnings retained in the business	46,979	39,577
Per Share of Common Stock	Net income [2]	$ 3.14	2.70
	Dividends paid	1.30	1.15
	Working capital (at end of year)	6.84	6.25
	Book value (at end of year)	21.35	19.49
	Price range New York Stock Exchange—Low-High	32⅛-40¼	22⅛-34⅜
Financial Position (at end of year)	Working capital[1]	$ 174,784	159,396
	Current assets per dollar of current liabilities	1.51	1.53
	Equity of common stockholders[1]	545,867	497,048
Other Statistics	Number of employees (at end of year)	97,463	96,760
	Number of stockholders of record (at end of year)	67,576	69,098
	Number of stores (at end of year)	2,291	2,303
	Average annual sales per store[1]	$ 2,308	2,094

[1] In thousands of dollars. [2] Based on weighted average shares outstanding during year.



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Anniversary for W. S. Mitchell too—his 35th.

Nineteen seventy-one was an anniversary year for Safeway, our 45th since incorporation in 1926.

The charts on these pages tell a story of remarkable growth. Safeway has become a $5 billion-plus company, only the third retailer ever to do so, and it all happened within the working lifetime of some present employees. Safeway is a young company; "45 years young" in this case is not just a pat expression.

Sales have more than doubled in the last ten years — just since 1961. So also have sales per store, dollars of net income, and net income per share of common stock.

Number of stores has increased only slightly in the last 10 years, from about 2,000 to 2,300, but square feet of store space has greatly increased to accommodate average sales per store of about $45,000 a week compared to $22,000 ten years ago. Peak number of stores was 3,527 in 1931, when sales were only $247 million, indicating the dramatic growth of store size and sales per store since those early days.

What of inflation, and population increase? Is Safeway's remarkable growth largely just a reflection of these factors? Indeed not.

U. S. population over the last ten years (1961 to 1971) has increased at an average yearly rate of 1.2%. Food-at-home prices (inflation) have increased at an average yearly rate of 2.6%.

Contrasted to this are Safeway's average yearly growth

Years of Growth

rates in the same ten-year period: increase in sales, 7.8% per year; and increase in net profit, 8.2% per year.

Here are a few of the historical milestones along the road to $5 billion:

1926 – Safeway incorporates. The new company's slogan: "Distribution without Waste"– a guiding principle through all the years since.

1947 – Sales exceed $1 billion.

1955 – Robert A. Magowan becomes Chairman of the Board, and Chief Executive Officer, then President also. Important changes in Company organization and methods begin.

1957 – Sales exceed $2 billion. Net after-tax profiit equals $30.9 million, more than double the figure two years before.

1962 – First venture overseas, to England.

1963 – Expansion to Hawaii, Australia and West Germany. First Safeway-builts open in England.

1966 – Sales exceed $3 billion. Quentin Reynolds becomes President.

1969 – Sales exceed $4 billion. Safeway expands into Houston and Toronto.

1971 – Quentin Reynolds becomes Chairman and Chief Executive Officer, R. A. Magowan remains Chairman of the Executive Committee, and W. S. Mitchell becomes President. Sales exceed $5 billion, and move on toward $6 billion with good momentum (see balance of this report).

Nineteen seventy-one was Bill Mitchell's first year as President. It was also an anniversary year for him personally – his 35th with Safeway. If, as has been said, "the past is prologue," then some very successful years lie ahead for him and for Safeway.

	Sales in Millions	Year-end Number of Stores	Annual Sales per Store in Thousands	Weekly Average Sales Per Store
(6 mo.) 1926	$ 30.1	766	$ 39	$ 1,500
1927	69.6	915	73	1,400
1928	103.3	2,020	70	1,300
1929	213.5	2,660	74	1,400
1930	219.3	2,691	64	1,200
1931	246.8	3,527	63	1,200
1932	229.2	3,370	55	1,100
1933	220.2	3,277	52	1,000
1934	243.0	3,201	58	1,100
1935	294.7	3,405	67	1,300
(53 wks.) 1936	346.2	3,347	77	1,500
1937	381.9	3,274	85	1,600
1938	368.3	3,112	90	1,700
1939	385.9	2,859	109	2,100
1940	399.3	2,528	135	2,600
1941	475.1	2,948	167	3,200
(53 wks.) 1942	611.1	2,530	219	4,100
1943	588.8	2,472	228	4,400
1944	656.6	2,463	254	4,900
1945	664.8	2,442	254	4,900
1946	847.8	2,413	334	6,400
1947	1,117.1	2,393	445	8,600
(53 wks.) 1948	1,276.8	2,240	535	10,100
1949	1,197.8	2,166	531	10,200
1950	1,210.0	2,072	571	11,000
1951	1,454.6	2,125	676	13,000
1952	1,639.1	2,092	757	14,600
(53 wks.) 1953	1,751.8	2,037	825	15,600
1954	1,813.5	1,998	877	16,900
1955	1,932.2	1,988	951	18,300
1956	1,989.3	1,981	976	18,800
1957	2,117.3	2,033	1,029	19,800
1958	2,225.4	2,117	1,050	20,200
(53 wks.) 1959	2,383.0	2,164	1,088	20,500
1960	2,469.0	2,207	1,101	21,100
1961	2,538.0	2,054	1,131	21,800
1962	2,509.6	2,069	1,183	22,800
1963	2,649.7	2,059	1,250	24,000
(53 wks.) 1964	2,817.6	2,099	1,322	24,900
1965	2,939.0	2,128	1,349	25,900
1966	3,345.2	2,173	1,514	29,100
1967	3,360.9	2,240	1,475	28,400
1968	3,685.7	2,241	1,612	31,000
1969	4,099.6	2,262	1,782	34,300
(53 wks.) 1970	4,860.2	2,303	2,094	39.500
1971	5,358.8	2,291	2,308	44,400

	Pre-tax Income	Taxes on Income	Net Income	Dividends		Earnings Retained in the Business
				Common	Preferred	
	IN MILLIONS					
(6 mo.) 1926	$ 0.9	$ 0.1	$ 0.8	$ –	$0.1	$ 0.7
1927	2.3	0.4	1.9	0.6	0.2	1.1
1928	4.0	0.5	3.5	0.9	0.5	2.1
1929	6.7	0.6	6.1	2.2	0.5	3.4
1930	4.3	0.5	3.8	3.2	0.7	(0.1)
1931	6.1	0.7	5.4	3.5	0.9	1.0
1932	4.9	0.5	4.4	3.6	1.0	(0.2)
1933	4.9	0.6	4.3	2.4	1.0	0.9
1934	4.6	0.7	3.9	2.4	1.0	0.5
1935	4.1	0.7	3.4	2.0	0.9	0.5
(53 wks.) 1936	5.1	1.0	4.1	2.8	0.9	0.4
1937	3.9	0.8	3.1	2.0	1.0	0.1
1938	5.1	0.9	4.2	1.6	1.0	1.6
1939	7.9	1.7	6.2	3.6	0.9	1.7
1940	6.5	1.7	4.8	2.8	1.0	1.0
1941	8.6	3.6	5.0	2.9	1.0	1.1
(53 wks.) 1942	9.7	5.2	4.5	2.5	1.1	0.9
1943	8.4	3.4	5.0	2.5	1.1	1.4
1944	10.3	5.1	5.2	2.5	1.1	1.6
1945	8.3	3.3	5.0	2.5	1.0	1.5
1946	19.3	7.7	11.6	2.5	1.0	8.1
1947	13.6	5.5	8.1	2.6	1.0	4.5
(53 wks.) 1948	16.9	6.8	10.1	2.6	1.0	6.5
1949	24.6	9.8	14.8	3.2	0.9	10.7
1950	28.8	14.1	14.7	6.4	1.0	7.3
1951	13.3	5.7	7.6	6.8	1.2	(0.4)
1952	17.1	9.8	7.3	6.8	1.6	(1.1)
(53 wks.) 1953	29.6	15.1	14.5	7.1	1.9	5.5
1954	28.8	14.8	14.0	8.4	1.9	3.7
1955	27.3	13.7	13.6	8.4	2.2	3.0
1956	53.4	28.0	25.4	8.8	1.9	14.7
1957	65.0	34.1	30.9	10.8	1.4	18.7
1958	69.9	36.5	33.4	13.5	1.2	18.7
(53 wks.) 1959	76.5	40.8	35.7	15.4	1.1	19.2
1960	75.2	40.4	34.8	17.7	1.1	16.0
1961	78.6	42.0	36.6	19.1	1.0	16.5
1962	83.3	44.0	39.3	20.1	0.9	18.3
1963	94.7	49.9	44.8	20.7	0.8	23.3
(53 wks.) 1964	97.9	47.9	50.0	23.4	0.7	25.9
1965	95.2	47.0	48.2	25.4	0.2	22.6
1966	117.8	58.1	59.7	26.0	–	33.7
1967	100.1	49.2	50.9	28.0	–	22.9
1968	115.5	60.5	55.0	28.0	–	27.0
1969	108.6	57.3	51.3*	28.0	–	23.3*
(53 wks.) 1970	140.5	71.6	68.9	29.3	–	39.6
1971	154.9	74.7	80.2	33.2	–	47.0

*Excludes extraordinary gain of $3.3 million net of taxes.

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Regions and Divisions

At year's end Safeway had 2,291 stores operating in the areas indicated on the globe at left: the United States, Canada, the United Kingdom, West Germany, and Australia. U. S. Division Managers are listed below under their respective Regional Managers; Canadian and overseas Division Managers report to the President.

REGIONAL MANAGER
Henry B. Clay

DALLAS DIVISION
Horace A. Justice
186 Stores

EL PASO DIVISION
Robert L. Jaynes
52 Stores

KANSAS CITY DIVISION
Jack L. Anderson
99 Stores

LITTLE ROCK DIVISION
James A. Rowland
70 Stores

OKLAHOMA CITY DIVISION
R. E. Templeman
71 Stores

OMAHA DIVISION
Paul K. Hendrix
82 Stores

PHOENIX DIVISION
Henry J. Frank
44 Stores

SOUTHERN CALIFORNIA DIVISION
Earl W. Smith
235 Stores

TULSA DIVISION
John W. Warthan
50 Stores

WASHINGTON, D.C. DIVISION
Basil M. Winstead
245 Stores

REGIONAL MANAGER
G. H. Parker

BUTTE DIVISION
Sam E. Raburn
38 Stores

DENVER DIVISION
Floyd H. Gifford
146 Stores

PORTLAND DIVISION
Fred E. MacRae
101 Stores

SACRAMENTO DIVISION
Frank J. Glasgow
89 Stores

SALT LAKE CITY DIVISION
Peter P. Martin
58 Stores

SAN FRANCISCO DIVISION
L. A. Bianco
214 Stores

SEATTLE DIVISION
C. A. Bradburn
112 Stores

SPOKANE DIVISION
L. M. Pringle
39 Stores

CANADA

PRAIRIE DIVISION
A. G. Anselmo
119 Stores

TORONTO DIVISION
David Laub
5 Stores

VANCOUVER DIVISION
T. Milburn
91 Stores

WINNIPEG DIVISION
W. F. Griffiths
48 Stores

OVERSEAS

AUSTRALIA DIVISION
J. W. R. Pratt
35 Stores

EUROPE DIVISION
John S. Kimball
48 Stores in United Kingdom
14 Stores in West Germany

Virginia Knauer Defines Role of Consumerism

Safeway recently asked Virginia Knauer, Special Assistant to President Nixon for Consumer Affairs, for her views on consumerism, which she most graciously consented to give.

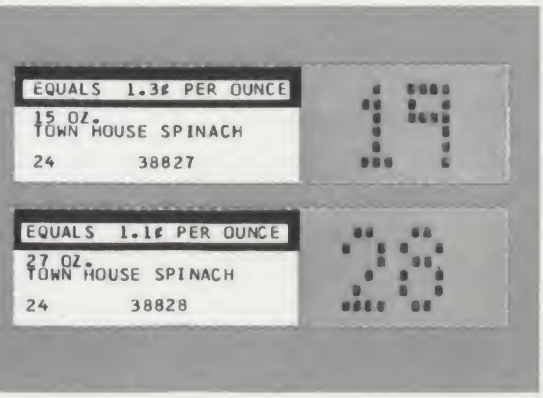
Here are her comments:

"Consumerism is nothing more and nothing less than a challenge to business to live up to its full potential—to give consumers what is promised, to be honest, to give people a product that will work and that is reasonably safe, to respond effectively to legitimate complaints, to provide information concerning the relevant quality characteristics of a product, to take into consideration the ecological and environmental ramifications of a company decision, and to return to the basic principle upon which so much of our nation's business was structured—'satisfaction guaranteed, or your money back.'

"In short, the thrust of consumerism is to motivate business toward quality."

Companies that have endured and thrived are for the most part committed to these principles. Clearly "consumerism" can be a team effort by business, government, and consumers.

Safeway takes the positive view of consumerism. We see it as a development that helps clarify the true wants of consumers, and presents us with opportunities to do a better job of satisfying them.



These are unit pricing labels, produced by computer and placed under each item on store shelves. There is more Town House Spinach for your money in the larger size can.

Mrs. Knauer sees consumerism challenging business to live up to its full potential.

Progress Shown on Open Dating, Unit Pricing

We are continuing to move ahead with open dating and unit pricing.

Freshness dates have been printed in larger type and relocated on packages for easier reading. Dates are now shown on some 2,000 food items packed under Safeway Brand names. We have also urged outside suppliers to follow suit.

Another consumer service that has shown progress is unit pricing, to make comparisons easier for customers. Safeway helped pioneer this innovation with a pilot study in 1969.

We now put a computer-produced price tag on the shelf under the item, showing price per ounce, pound, or other unit of measure (see photo).

As prices change the computer provides new price tags, and continually renews the tags on a rotating basis.

So far Safeway has unit pricing in more than 1,000 stores served by our Washington, D.C., Southern California, San Francisco, Sacramento, Denver, Seattle, and Portland Divisions.

We find that customers appreciate the unit price information. We also find operating efficiencies resulting from the system such as fewer out-of-stocks, improved ordering, and more complete and accurate price marking.

Nutritional Information Goes on Safeway Labels

Last fall the Company began printing nutritional contents on the labels of Safeway Brand Products – how much protein, fat and carbohydrates; how many calories and, where significant, the vitamins and minerals.

This information now appears on a considerable number of items, with more being added regularly. Among them are Nu-Made Salad Dressing (see photo), Nu-Made Salad Oil, Bel-air Cheese Pizza, Town House Navy Beans, Lucerne Instant Breakfast, Snow Star Ice Cream, Sunnybank Margarine, Empress Soft Margarine, Nu-Made Peanut Butter, etc.

Protein, fat and carbohydrates are indicated in grams per serving (in ounces), or per tablespoon or other appropriate unit measure.

Vitamin and/or mineral information is also shown on such items as instant breakfast, corn flakes, milk, etc., with others to come.

In addition to this labeling, we began a new program last year of providing leaflets to our customers in some areas, describing the nutritional characteristics of various foods. There are separate leaflets for lettuce, carrots, peaches, bananas, cereals, cottage cheese, eggs, chicken, beef roast, and about fifteen other products.

The leaflets are a joint project of Safeway and the Nutritional Council for Consumers (NCC), a non-profit organization based at the University of Iowa.

Nutritional contents (fat, carbohydrates, etc.) are shown on the cap of this Nu-Made Salad Dressing, in terms of grams per tablespoon.

Safeway's New In-Store Balers Aid Recycling

In 1971 waste paper balers became standard equipment in Safeway stores of average or higher volume.

The balers greatly reduce time, space, and cost required to handle literally tons of waste cardboard (empty cartons) in the stores each week, and to return it to our Distribution Centers for sale and recycling.

Previously, massive piles of cardboard accumulated in the stores to be tied and laboriously hand loaded, practically filling a truck. Now instead, flattened cartons are simply tossed into the baler as they accumulate.

The baler compresses them, and when full ejects a 500-lb. bale onto a pallet (see photo). The next truck driver quickly loads the bale into a corner of his trailer with a pallet truck and takes off on his return trip to the warehouse.

A veritable mountain of waste cardboard is compressed in that 500-lb. bale about to be put on a pallet and hauled off for recycling.

Training Program Helps Inmates Develop Job Skills

A food clerk training program, taught by inmates, is now established at Lorton Reformatory in Virginia, through the efforts of our Washington, D.C. Division (see photo).

The idea originated at a prayer breakfast in a Washington church. Safeway assigned two specialists to install a training setup at Lorton complete with checkstands, display cases, etc.

Last April two inmates selected as instructors were trained by Safeway, attending our own program for disadvantaged unemployed (and finishing first and second in their class). They worked in our stores for a month, then taught for a week in our training school.

The course at the reformatory provides four hours of instruction a day for two months, to about twelve inmates at a time.

Safeway does not guarantee employment to graduates, though three were working in our stores at year-end.

Special Training Given Distribution Center Managers, Food Clerks

While continuing to stress ongoing employee training throughout our operations, the Company undertook two special training programs last year.

Distribution center managers of the U. S. and Canadian retail divisions met at the administrative office for a 3-week management development session to exchange ideas, receive technical information, and generally increase their management skills.

Distribution center manager is a key position in charge of operating a Division's entire warehousing-trucking complex supplying the stores. It includes all the warehouses (groceries, meats, produce, frozen foods, non-foods, etc.) plus the Division's trucking fleet.

The other special training program is designed to improve checkout service to our customers. It will train Safeway checkers in the "touch system" of operating the cash register; that is, without looking at the keyboard.

A checker using this system can process a customer's order in less time than by the usual method. Checker fatigue diminishes, accuracy improves, and customer satisfaction increases.

Our Central Employee Relations Department has completed "train the trainer" sessions in about half the Divisions and is now working with the others. A top training person was brought in from a retail operation and is devoting full time to this promising program throughout the Company.

Above: Mayor Walter E. Washington, District of Columbia, dedicates food retail training program which Safeway initiated and helped install at Lorton Reformatory in Virginia. Below: Safeway Distribution Center Managers sharpen management skills at development session in Oakland, Calif.

Nixon, Reynolds Exchange Messages on President's Economic Program

Quentin Reynolds, Safeway's Board Chairman, sent the following teletype to President Nixon shortly after the President's dramatic first announcement of his Economic Stabilization Program last August:

"Please count on us for 100% support of your Executive Order . . . As a member of your National Business Council for Consumer Affairs, I realize full well the necessity of halting the inflation spiral.

"Your Executive Order and the formation of the Cost of Living Council is a bold and innovative step in that direction. Please let me know if I can be of assistance in this effort."

The President replied by personal letter as follows:

"Dear Quentin:

"Your recent telegram in support of our new economic policy confirms my belief that the citizens of this country are eager to meet the challenges of peace. We have launched . . . a bold program, designed to . . . win for every American a new era of prosperity.

"If we are to reach these goals, temporary sacrifices may be required. But I am convinced that, by working together, we can also move forward together. In this spirit, I hope you will convey to your friends and associates my earnest wish that they join with us in this great investment for our nation's future.

Sincerely, R. N."

First Lady Greets Our D.C. Division Home Economist

Jacqueline Moore, Home Economist for our Washington, D.C. Division, got a cheerful greeting from Mrs. Nixon at the 1971 convention of American Women in Radio and TV (see picture).

Mrs. Moore provides consumer information regularly on a local D.C. TV program. She also keeps a busy schedule of speaking engagements with local schools, community groups, and others who seek her advice on economical food shopping and preparing nutritious meals.

Mrs. Moore came to Safeway in 1969. She is an honor graduate of Hampton Institute, Virginia, where she won several awards including participation in "Experiments in International Living."

She spent a semester in Greece, Italy, and Turkey, and another semester at Cornell University's College of Home Economics. She is a member of both the Virginia and American Home Economics Associations.

Convention of Women in Radio and TV is occasion of Mrs. Nixon's meeting with Jackie Moore, our D.C. Division's Home Economist.

Jr. Achievement Firm Enjoys a Successful Year

Varsity Leather Goods Company, Safeway-sponsored Junior Achievement firm, earned its stockholders 10¢ on each $1 share invested for their fiscal year ended in 1971.

The firm manufactured leather chokers, barettes, and chain belts, sold over $400 worth to win second place award for sales among twelve competing companies in the high schools of Oakland, California, and the East Bay.

Young people learn about business in this program. They form and operate their own company, selling stock at $1 a share for starting capital.

Safeway sponsorship takes the form of advice and counsel by Company personnel, in this instance corporate headquarters personnel (see photo). Advisors devote long hours to meetings and organizational assistance.

A number of Safeway Divisions similarly sponsor Junior Achievement firms in their headquarters cities.

Directors and Officers of Junior Achievement company are pleased to hear their products praised by Quentin Reynolds, Safeway Board Chairman and Chief Executive Officer. Also standing are (l. to r.) Gary Collins, President of the high school firm, and two Safeway advisors.

Aerial view shows Golden Gate Park, many homes, and now a new Safeway store here where the land slopes gently to the Pacific.

One of Safeway's Finest Opens in San Francisco

Our new store at the beach in San Francisco is in many ways typical of stores Safeway is building today.

The exterior is attractive, functional, and in harmony with its surroundings; the interior spacious and well-lighted, reflecting the rich color of walls, fixtures and merchandise.

Though typical in these respects, this new store is also exceptional in a number of other ways, most notably its location. It is situated literally on the rim of the continent, close by the Golden Gate, a stone's throw from the white surf of the Pacific.

This is the largest food store in the Company – 37,422 square feet over-all. It has 25,000 feet of salesroom, 13 checkstands, and parking for 211 cars. In the salesroom area alone you could put the whole building of the average-size store we opened in 1971 (22,000 square feet).

Special departments include a complete in-store service bake shop, service delicatessen, service liquor department, and a large non-foods department. There are wide assortments of staple groceries, gourmet foods, health foods, and frozen foods. The ample fresh perishables departments offer impressive displays of quality produce, meats, and dairy products.

Modern features of the building include:

- Return air ducts beneath the floor in the frozen food aisles to pull warmth into those otherwise chilly spaces.
- Special noise-abatement measures in the compressor room for a quiet environment in the store and neighborhood.
- High-basket checkstands to ease the workload for checkers and speed checkout for customers.

From the opening day in October, 1971, our San Francisco beach store has lived up to expectations. In this instance the approach was to pay the high cost of scarce city property for an exceptional site, and build an exceptional store on it designed to attract and handle large numbers of customers efficiently. This it is doing.

In other circumstances, other approaches are called for. The key is flexibility.

Unpainted stone exterior of new San Francisco beach store blends with surroundings, is unaffected by winds and sea spray.

Inside, delicatessen offers assortment of tempting food. Beamed ceiling and red brick floor highlight the department.

Who wouldn't smile in this comfortable place with all that good food around. Besides, it's fun to ride in a grocery shopping cart.

Serving Sister Cities

Our Newest in San Francisco, USA

Last year two remarkably similar events took place on two continents 9,000 miles apart.

Safeway opened one of its finest new stores "at the beach" in San Francisco in October (see preceding page). Two months earlier we had opened our first store nearly half a world away in Sydney, Australia, San Francisco's official sister city on the continent down under.

These two events are symbolic of the historical as well as geographical span of Safeway. The San Francisco Bay Area is the operational center of the Company, the place selected for its headquarters offices when the Corporation was formed 45 years ago.

Sydney, Australia, on the other hand, represents Safeway's latest expansion into faraway territory, a big move into the largest metropolitan area (pop. 2.8 million) on the Australian continent. Our new store last August was the first of three opened in metropolitan Sydney in 1971. Two are planned for 1972, with more soon to follow.

Safeway is new to Sydney, but not to Australia. We have 32 stores in the Melbourne area (about 500 miles to the south) and will open three more there in 1972.

Safeway's leap from Melbourne to Sydney greatly

Beautiful sights on opening day in San Francisco: flowers, customers, and inviting displays of fresh fruits and vegetables.

on Two Continents

Our First in Sydney, Australia

expands our Australian potential. Sydney's 2.8 million population is expected to grow to 5 million by the year 2000. It is a great shipping, manufacturing, and financial center, supported by a rich agricultural and pastoral hinterland. With 22% of the nation's population, it is Australia's largest retail market.

San Francisco and Sydney officially proclaimed themselves sister cities in 1968 after an exchange of trade and cultural missions by civic and business leaders. The similarities are striking:

San Francisco is one of the world's largest and most beautiful ports. So is Sydney.

San Francisco has a world-famous bridge, completed in the 1930's, gracing its harbor. So also does Sydney.

San Francisco achieved cityhood suddenly, on the momentum of a gold rush in the mid-19th century. So did Sydney.

Today there is another similarity. In both cities you can now shop in stores displaying the familiar "S", very much alike in colorful appearance, courteous service, and inviting variety of attractive foods.

Our new store in the Sydney suburb of Merrylands, one of three marking Safeway's 1971 entry into that thriving metropolitan area.

Baby food is popular in Sydney, Australia's biggest retail market. Pop. now 2.8 million headed for 5 million by year 2,000.

In Sydney as in San Francisco, shoppers are attracted by fine fresh perishables. Here Sydney housewife selects her meat.

The young one below, like his counterpart 9,000 miles away (see opposite page), also seems happy about shopping at Safeway.

Safeway's first store in Edinburgh, Scotland (pop. 465,000) presents graceful, colorful scene with Scottish homes in background.

Customers above are in one of our two new stores in Hannover, W. Germany, our first in that city of over ½ million population.

New store below opened 11/30/71 in Brunswick Shopping Centre, Bloomsbury, near central London. Centre has numerous shops, flats.

Our Tenth Year Overseas

Overseas operations achieved their tenth consecutive year of successful growth in 1971.

Combined retail sales exceeded $156.9 million (for sales and profit details see Financial Review). Total stores overseas were just three short of 100 as of year-end: 48 in England and Scotland, 14 in West Germany, and 35 in Australia. Of these, 20 were new stores opened in 1971: 8 in England and Scotland, 4 in West Germany, and 8 in Australia.

Safeway first ventured overseas in 1962 with acquisition of 8 stores in the London area (two have since been closed). Today the overseas operations have become an important contributing factor in the Company's over-all current results and growth potential.

Expansion will continue at an accelerated rate. We expect to open more new stores overseas in 1972 than we did in 1971.

United Kingdom

In the decade since the Safeway name first appeared in London, the "S" has become a familiar symbol to shoppers in many areas of England and Scotland.

Among the eight new stores opened in 1971 by the United Kingdom operation was our first one in Edinburgh, Scotland (see photo). New stores were added also in Glasgow and Prestwick, Scotland, and in the North of England in the Manchester area, as well as in Southern England in and around London.

During 1972 we will expand further in central Scotland, in the areas of Birmingham, Leeds and Manchester and the Lancashire coast, in London and the Home Counties, Bournemouth and the South Coast.

Grocery orders and warehouse stock control for all U.K. stores and warehouses are now handled by computer at our Aylesford Distribution Center outside London. This new large multi-warehouse-trucking-office complex was completed in 1970.

Another new development has been the opening at Aylesford of a modern meat warehouse, producing vacuum packed sub-primal beef cuts. It soon will be serving all England and Scotland as well.

West Germany

Of the four new stores opened in 1971 in West Germany, two were in the Hamburg area and two in Hannover.

The latter are our first in Hannover, a major city of more than half a million population, approximately 75 miles south of Hamburg. These stores and the ones in Bremen are serviced by our Hamburg warehouses.

We are continuing with further development in and around the three principal cities of Hamburg, Hannover and Bremen, as well as considering sites in smaller but still substantial cities within about a hundred-mile radius of Hamburg.

Among other new developments are the introduction of leased computer facilities for warehouse stock control, and new training programs for store personnel (including store management) to meet the requirements of our expansion.

1971 Financial Review

SALES UP 10.3%. In 1971 sales exceeded $5 billion for the first time, and for the ninth consecutive year a new all-time high in sales was achieved. Sales during the 52-weeks of 1971 increased to $5.36 billion, an increase of 10.3% over 1970 which was a 53-week year. Restating 1970 sales on a comparable 52-week basis, 1971 sales were 12.4% higher than in 1970.

Table A shows sales by country. Overseas sales increased an average of 34% and represented 2.9% of total sales in 1971 compared to 2.4% in 1970.

TABLE A Sales by Country

(In millions U.S. $)	1971 52 Weeks	1970 53 Weeks	Per cent Increase	Per cent of total 1971	Per cent of total 1970
United States	$4,522.1	$4,131.7	9.4%	84.4%	85.0%
Canada	679.8	610.9	11.3	12.7	12.6
United Kingdom	86.5	65.4	32.3	1.6	1.3
Australia	53.0	39.4	34.5	1.0	.8
West Germany	17.4	12.7	37.0	.3	.3
Total Sales	$5,358.8	$4,860.1	10.3%	100.0%	100.0%

INCOME UP 16.4%. Net income after taxes in 1971 rose to $80.2 million, another all-time high and an increase of 16.4% over the 53-week year 1970. Restating 1970 income on a comparable 52-week basis, 1971 income was 18.6% higher than 1970.

Net income per share in 1971 increased to $3.14 per share compared with $2.70 per share in 1970. During 1971 return on average stockholders' equity was 15.38% compared with 14.44% in 1970. Net income as a percentage of sales also increased to 1.50% in 1971 from 1.42% in 1970.

Gross profit of $1,087 million in 1971 represented an increase of $92 million over last year but a decrease as a percentage of sales to 20.3% from 20.5% in 1970. Operating and Administrative Expenses in 1971 increased over last year but decreased as a percentage of sales to 17.3% from 17.5% in 1970. The increase in Gross Profit dollars more than offset the higher Operating and Administrative Expenses and resulted in an Operating Profit of $158 million or 2.96% of sales in 1971 compared with 3.00% last year.

TAXES ON INCOME. Provisions for Federal, Canadian and other Income Taxes amounted to $74.9 million in 1971, and $71.6 million in 1970. The provision for U.S. Federal Income Taxes was reduced by an investment tax credit of $3,000,000 or 12¢ per share in 1971 as contrasted to $425,000 or 2¢ per share in 1970. Such credits are based on placement in service of qualifying equipment under legislation applicable to each year.

The 1970 Provision for U.S. Federal Income Taxes also included a surtax of 2.5% or 5¢ per share. That surtax has since been repealed and had no effect on the 1971 provision.

A comparative summary of income tax provisions is shown below:

	1971	1970
Current		
Regular tax	$78,328,613	$68,762,398
Surtax	—	1,283,597
	78,328,613	70,045,895
Less investment tax credit	3,000,000	425,000
	75,328,613	69,620,895
Net deferred tax charge (credit)	(380,489)	1,948,909
	$74,948,124	$71,569,804

Federal income tax returns for the years 1963 through 1971 for Safeway's U.S. and Canadian operations are currently under or subject to review by taxing jurisdictions. We believe that any possible additional assessments for these years, in excess of those provided for, will not result in any material adverse effect on stated earnings or financial position.

DIVIDENDS. Four quarterly cash dividends of 32½ cents a share, totaling $1.30, were paid on common stock during 1971. This compared with a total of $1.15 per share in 1970 and $1.10 in 1969. As part of the Economic Stabilization Program, industry was requested not to increase dividend payments from August 15 to December 31, 1971, and during 1972 the rate of dividend increase is subject to control. On February 22, 1972 the quarterly dividend payable March 31, 1972 was raised to 33¾¢ a share.

PROPERTY. Capital expenditure for property, plant and equipment amounted to $176 million in 1971, with the major part involved in the opening of 123 new stores. Expenditures were also made in 1971 for 73 major store remodels and for completion of 5 new warehouses and plants as well as for expanding 9 plants and warehouses. Provision for depreciation was $54,814,262 in 1971 and $50,360,961 in 1970.

The 123 new stores opened in 1971 averaged over 22,000 square feet in size, containing 2.7 million square feet in total. In 1971, 107 older, smaller food stores and 1 Drug Center totaling 1.5 million square feet were closed, and 15 Drug Centers with 329,000 square feet were sold. Twelve other Safeway Drug Centers were consolidated with adjacent food stores with no effect on total square footage. All Drug Centers have now been consolidated, sold or closed.

At the end of the year 1971, we operated 2,291 stores averaging 18,800 square feet in size, so that total area reached 42.9 million square feet. Table B (See following page) shows the number of new stores opened during the past five years, and the number and area of stores in operation in each country at the end of 1971. A real estate subsidiary, Safeway Holdings, Inc., was formed in 1971 to assist in the financing of selected properties in this continuing expansion of facilities.

At year-end we also operated 14 fried chicken take-out units in the Washington, D.C. area, in our joint venture with Holly Farms Poultry Industries, Inc. Two additional units were opened in early 1972 and several more are in the pipeline. Customer acceptance has been very good.

LONG-TERM DEBT. At the end of 1971, long-term notes payable consisted principally of $24 million of 4.65% notes of

the parent company due on November 1, 1979, and $20 million of 8.75% notes of a subsidiary due on December 15, 1975. The latter notes are guaranteed by Canada Safeway Limited.

During the year 1971 two mandatory semi-annual payments of $1.5 million each were made on the 4.65% notes, which also provide certain prepayment options at varying premium rates to maturity. Under agreements covering these notes, $215,673,224 of the retained earnings as of January 1, 1972 were free of restrictions for dividend payments and acquisitions of common stock. Other restrictions include a limitation on the creation of additional funded debt. The semi-annual repayment installments totaling $3 million payable in 1972 are included in current liabilities.

We are presently planning to issue, in April, 1972, $65 million of sinking fund debentures due in 1997.

CAPITAL STOCK. Capital Stock as of year-end 1971 and 1970 consisted of 220,372 shares of 4% cumulative preferred, authorized and unissued, and 27,000,000 shares of common stock authorized at a par value of $1.66⅔ per share. Outstanding common stock amounted to 25,562,831 shares at the end of 1971, compared with 25,498,511 shares a year earlier. These are after deducting 45,981 treasury shares at the end of both years.

STOCK OPTIONS. The following summary shows the changes during the year in qualified and restricted options granted to key employees to purchase shares of the Company's Common Stock:

	Shares	Option Price Ranges
Balance beginning of year	454,550	$22.00-30.59
Granted	—	—
Exercised	64,320	$22.00-30.59
Expired	1,700	$22.88-24.88
Balance at end of year	388,530	$22.00-30.59

At the end of the year there were 164,450 unoptioned shares available for granting compared with 162,750 at the beginning of the year.

The increase in Additional Paid-in Capital during 1971 of $1,658,832 consists of the excess proceeds over par value of shares issued under options exercised during the year.

TABLE B Stores by Country

	End of Fiscal Year 1971		Number of Stores Opened During Past 5 Years					Opened Prior
	Million Sq. Feet.	Number of Stores	1971	1970	1969	1968	1967	to 1967
United States	36.4	1,931	91	98	94	105	116	1,427
Canada	5.0	263	12	19	15	11	14	192
United Kingdom	.8	48	8	7	4	3	1	25
Australia	.6	35	8	5	3	3	2	14
West Germany	.1	14	4	2	2	—	1	5
Total	42.9	2,291	123	131	118	122	134	1,663

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS. The Company and its Canadian subsidiaries have contributory, trusteed retirement plans which may be amended or terminated at any time, for eligible employees not covered by other plans to which the Company contributes. The assets of the trust funds are sufficient to fund vested benefits. Contributions charged to income were $4,980,455 in 1971 and $3,190,752 for 1970.

Contributions charged to income for Safeway's U.S. Profit-Sharing Plan were $5,584,124 in 1971 and $4,987,549 for 1970.

CHANGES IN FINANCIAL POSITION AND WORKING CAPITAL. As shown in the Statement of Changes in Consolidated Financial Position on page 18, funds of $228,232,000 were provided during the year. These were primarily from net income, $80,179,000; from depreciation and amortization charges not requiring funds, $55,178,000; and from sales of properties, $82,131,000.

These funds were used primarily for net additions in property, $173,206,000; for payment of dividends to stockholders, $33,200,000; and to increase the working capital necessary to operate the business, $15,388,000. This increase in working capital was for increases of $53,824,000 in merchandise inventories, and increases of $8,864,000 in prepaid expenses which were partially offset by a decrease in cash of $12,587,000, and an increase of $36,466,000 in payables and accruals.

Current assets as shown on the Consolidated Balance Sheet on page 17 were 1.51 times current liabilities at year-end compared to 1.53 times at the end of 1970.

COMMITMENTS. The Company has commitments under contract for the purchase of land and for the construction of buildings. Portions of such contracts not completed at year-end are not reflected in the financial statements. Such unrecorded commitments amounted to approximately $44,700,000 at year-end 1971 as compared to $31,000,000 for 1970.

Safeway and its subsidiaries occupy primarily leased premises. Long-term leases are in effect on 2,740 properties. Of these leases, 1,568 can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the landlords.

Minimum rental on leases in effect at the year-end was approximately as follows for the years or periods indicated:

1972	$94,597,000	1977-1981	$427,396,000
1973	93,879,000	1982-1986	283,982,000
1974	93,077,000	1987-1991	132,615,000
1975	92,346,000	After 1991	85,067,000
1976	91,700,000		

CONTINGENT LIABILITIES. Various claims and lawsuits arising in the normal course of business are pending against the Company. To the extent that such contingent liabilities are uninsured or otherwise not provided for, General Counsel for the Company is of the opinion that the final outcome of such actions will not have a significant adverse effect on the financial statements at January 1, 1972.

FOREIGN OPERATIONS. Sales and income of foreign operations in Canada and overseas continue to expand. Sales of the Canadian subsidiary increased by

11.3% in 1971 and net income increased by 10.1%. For the three overseas subsidiaries combined, sales increased by 33.6%, and net income increased by 17.7%. The Canadian and overseas subsidiaries combined accounted for 15.6% of total consolidated Safeway sales in 1971 and for 21.0% of consolidated net income.

Table C shows certain Balance Sheet and Income Statement information for the Canadian subsidiary and its overseas subsidiaries (the United Kingdom, Australia, and West Germany).

SUMMARY OF ACCOUNTING POLICIES. The Company believes that the accompanying financial statements may be read with greater understanding by reference to the following concise descriptions of the accounting policies and procedures followed consistently in the preparation of the statements:

Basis of Consolidation: Consolidated financial statements include results of operations, account balances, and changes in financial position of all subsidiaries except one minor overseas subsidiary which is included in miscellaneous investments at the amount of equity in net book value. On consolidation, amounts for foreign subsidiaries were translated to U.S. dollars by using the year-end rate of exchange for current assets and liabilities and historical cost rates for long-term items. Operating results were translated at the 1971 average rate of exchange except for items which represent amortization of long-term assets which were translated at historical cost rates. Fiscal years of overseas subsidiaries generally end in the last week of September.

Net Income Per Share: Net income per share is determined by dividing consolidated annual net income by the weighted average of common shares outstanding during the year.

Provision for Income Taxes: The Company follows the generally accepted practice of providing for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the Company's use, for tax purposes, of accelerated depreciation and, for book purposes, accruing estimated expenses for self-insurance reserves and related items. These deferred charges and credits are amortized as the timing differences reverse. The net effect of these timing differences is shown in the comparative summary of income tax provisions on page 13. The Company has consistently reduced current federal tax provisions for investment tax credits in the year which they arise, rather than over the productive life of the related equipment.

Depreciation: Depreciation is computed for Annual Report purposes on the straight-line method, which means that approximately equal amounts of depreciation are charged against operations each year during the useful life of each item or category of buildings, improvements or equipment. For tax purposes, the accelerated method is used for depreciation.

Amortization: The original cost of certain subsidiaries was greater than their net book asset values at date of acquisition. Such excesses are being amortized and charged against income in twenty equal annual amounts starting in 1970.

Inventory: Inventory is valued at the lower of cost or market value at year-end. Cost for approximately 52% of year-end inventory has been determined by the first-in, first-out method and approximately 48% by the retail method.

Properties for Development and Sale within One Year: This entry under Current Assets represents the original cost of land and improvements developed for use by the Company and committed for sale and leaseback during 1972.

Employee Retirement Plan: The Company's practice is to contribute the full normal cost and payment toward amortization of any unfunded past service liability.

Stock Options: Proceeds from the sale of stock issued under options are credited to Common Stock at par value and the excess of the option price over par value is credited to Additional Paid-in Capital.

TABLE C

Balance Sheet Data—1971	Canadian Operations[1]	Overseas Operations	Consolidated
Current Assets	$ 83,110,088	$ 15,278,496	$ 98,388,584
Investment in Overseas Subs.	35,282,139	—	—
Other Assets	1,232,040	3,909,465	5,141,505
Property (Net)	76,067,435	31,186,879	107,254,314
Total	$195,691,702	$ 50,374,840	$210,784,403
Current Liabilities	$ 31,829,103	$ 13,526,848	$ 45,355,951
Long-term Liabilities	22,140,826	1,516,106	23,656,932
Loan by Parent	166,837	14,630,217[1]	166,837
Preferred Stock	4,879,100	—	4,879,100
Equity of Parent	136,675,836	20,651,922	136,675,836
Minority Interest	—	49,747	49,747
Total	$195,691,702	$ 50,374,840	$210,784,403
Income Statement—1971			
Sales	$679,785,328	$156,963,337	$836,748,665
Pre-Tax Income	29,714,775	3,331,250	33,046,025
Provision for Income Taxes	14,496,105	1,707,019	16,203,124
NET INCOME—1971	$ 15,218,670	$ 1,624,231	$ 16,842,901
NET INCOME—1970	$ 13,825,380	$ 1,379,929	$ 15,205,309

[1] Includes Canada Safeway International Finance Corp.

Statement of Consolidated Income and Retained Earnings

For the 52 Weeks Ended January 1, 1972 and the 53 Weeks Ended January 2, 1971

	1971	1970
Sales	$ 5,358,836,647	$ 4,860,166,969
Cost of Sales	4,272,272,971	3,865,735,689
Gross Profit	1,086,563,676	994,431,280
Operating and Administrative Expenses	928,127,638	848,281,320
Operating Profit	158,436,038	146,149,960
Other Deductions		
Interest expense, net	3,821,922	3,935,183
Earnings of unconsolidated foreign subsidiary	(33,165)	(21,041)
Minority interest in earnings of overseas subsidiary	2,671	3,226
Dividends on preferred stock of Canadian subsidiary	212,130	223,697
Amortization of excess cost of investments in subsidiaries	217,810	217,841
Other Charges—net	(912,307)	1,329,006
	3,309,061	5,687,912
Income before provision for income taxes	155,126,977	140,462,048
Provision for Federal, Canadian and other Income Taxes	74,948,124	71,569,804
Net Income (per share: 1971, $3.14; 1970, $2.70)	80,178,853	68,892,244
Retained Earnings at Beginning of Period	408,128,150	368,511,884
	488,307,003	437,404,128
Deduct:		
Cash dividends on common stock (per share: 1971, $1.30; 1970, $1.15)	33,199,959	29,314,629
Additions resulting from stock acquisitions	(74,928)	(38,651)
	33,125,031	29,275,978
Retained Earnings at End of Period	$ 455,181,972	$ 408,128,150

See financial information included in "Financial Review"

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.

To the Board of Directors and Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheets of Safeway Stores, Incorporated and subsidiaries as of January 1, 1972 and January 2, 1971 and the related statements of income and retained earnings and changes in financial position for the 52 and 53 weeks, respectively, then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at January 1, 1972 and January 2, 1971 and the results of their operations and changes in financial position for the 52 and 53 weeks, respectively, then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

2150 Valdez Street
Oakland, California 94612
February 29, 1972

Peat, Marwick, Mitchell & Co.

Safeway Stores, Incorporated and Subsidiaries

CONSOLIDATED BALANCE SHEET

As of January 1, 1972 and January 2, 1971

ASSETS	January 1, 1972	January 2, 1971
Current Assets		
Cash	$ 52,454,719	$ 65,041,756
Receivables	18,935,652	16,510,630
Merchandise inventories	404,073,420	350,249,243
Prepaid expenses	22,045,144	13,181,245
Properties for development and sale within one year	17,171,111	17,940,786
Total Current Assets	514,680,046	462,923,660
Other Assets		
Notes receivable, licenses, and miscellaneous investments	10,946,810	9,816,028
Unamortized note issue expense	571,257	662,297
Excess of cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	3,920,564	4,138,374
	15,438,631	14,616,699
Property, at Cost		
Buildings	51,542,296	48,303,882
Leasehold improvements	100,633,423	89,253,944
Fixtures and equipment	579,869,215	526,811,505
	732,044,934	664,369,331
Less accumulated depreciation	339,737,042	314,457,564
	392,307,892	349,911,767
Land	42,044,427	48,252,557
	434,352,319	398,164,324
TOTAL	$964,470,996	$875,704,683

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Notes payable to banks, short-term	$ 9,100,000	$ 11,892,828
Current maturities of long-term notes	4,268,262	3,911,104
Payables and accruals	302,266,159	265,800,332
Federal, Canadian and other income taxes	24,261,183	21,923,290
Total Current Liabilities	339,895,604	303,527,554
Long-Term Liabilities and Reserves		
Notes payable	50,207,566	46,378,714
Deferred income taxes	17,976,930	19,542,514
Minority interest in capital stock and retained earnings of subsidiaries:		
Preferred stock of Canadian subsidiary	4,879,100	5,254,000
Overseas subsidiary	49,747	47,076
Reserve for self-insurance	5,594,576	3,907,206
	78,707,919	75,129,510
Stockholders' Equity		
Common stock	42,604,718	42,497,518
Additional paid-in capital	48,080,783	46,421,951
Retained earnings	455,181,972	408,128,150
	545,867,473	497,047,619
TOTAL	$964,470,996	$875,704,683

See financial information included in "Financial Review"

Statement of Changes in Consolidated Financial Position

For the 52 Weeks Ended January 1, 1972 and the 53 Weeks Ended January 2, 1971

	1971	1970
Funds Provided:		
Net Income	$ 80,178,853	$ 68,892,244
Add charges to income not requiring funds:		
Depreciation and amortization	55,178,208	50,578,802
Increase in reserve for self-insurance	1,687,370	735,910
Loss on disposition of property	842,666	2,134,805
Increase (decrease) in deferred income taxes	(380,489)	1,948,909
Funds provided from operations	137,506,608	124,290,670
Proceeds from sale of properties	82,130,718	39,115,599
Increase in properties for sale within one year	—	11,183,247
Issuance of long-term notes payable	—	20,000,000
Increase in other long-term notes payable	6,828,852	2,198,929
Sale of common stock to employees	1,766,032	239,315
	$ 228,232,210	$ 197,027,760
Funds Used:		
Additions to property, net of retirements and miscellaneous equipment sales	$ 173,205,966	$ 143,938,990
Decrease in properties for sale within one year	769,675	—
Dividends to company stockholders	33,199,959	29,314,629
Decrease in long-term notes payable	3,000,000	3,000,000
Decrease in long-term portion of deferred income taxes	1,185,095	—
Increase in other assets	1,185,878	1,837,052
Decrease in minority interest, net	297,301	296,723
Increase in working capital	15,388,336	18,640,366
	$ 228,232,210	$ 197,027,760
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash	$(12,587,037)	$ 26,201,532
Receivables	2,425,022	(6,811,638)
Merchandise inventories	53,824,177	13,095,788
Prepaid expenses	8,863,899	558,194
Properties for sale within one year	(769,675)	11,183,247
	51,756,386	44,227,123
Increase (decrease) in current liabilities:		
Notes payable to banks	(2,792,828)	3,107,468
Current maturities of long-term notes	357,158	551,104
Payables and accruals	36,465,827	19,532,757
Federal, Canadian and other income taxes	2,337,893	2,395,428
	36,368,050	25,586,757
Increase in working capital	$ 15,388,336	$ 18,640,366

See financial information included in "Financial Review"

Air freighter loaded with California strawberries arrives in Kansas City before dawn, met by Safeway truck for delivery to stores.

LOOKING AHEAD...

Some of the far out science-fiction concepts we read about for grocery shopping may be a long time in coming, but solid progress is being made daily on a number of innovations.

One of these is the checkout of customers through an electronic or "computerized" checkstand.

Safeway is keeping up with developments on this. For more than a year a Future Systems Group that was set up for the specific purpose has been active at corporate headquarters. Our industrial engineers are working with a number of manufacturers and equipment suppliers to develop prototype systems for testing in one of our stores in 1972.

We are also cooperating with the industry in the adoption of a universal product code. This will provide a unique identification of each item, which will be read by a scanning device and rung up automatically.

Benefits from a successful system would be of "breakthrough" proportions, in terms of speed and accuracy for checkers, customer service, inventory and supply control, and item-by-item sales information not previously available from individual stores.

Fully computerized checkstands may still be five years or so in the future, but after so long in the "talk" stage they are now definitely on the way.

Air Shipment of Perishables

A development destined to play a very large role in the future of food distribution is air shipment of perishables, especially fresh fruits and vegetables. Airlines carried some 56 million lbs. of California produce in 1970, more than triple the tonnage just six years ago.

Safeway's air shipments of California strawberries to the Washington, D.C. Division in 1971 totaled nearly 700,000 lbs. Jet freighters cut delivery from four days by truck to just a few hours air time. The result was fresher, more appealing berries for our customers.

During the 1971 dock strike our San Francisco Division flew 40 charter planes of perishable goods to Hawaii—about 3⅓ million lbs. Twelve of these planes returned from Hawaii with 850,000 lbs. of fresh pineapple and papayas.

A Boeing 707 freighter carries 90,000 lbs. The 747 will carry 320,000 lbs. The future potential of air freight is vastly increased by the new larger planes.

Data Transmission System

Another new development is Safeway's "Data Preparation and Transmission System" for sending information (mainly merchandise orders) from each store to the division distribution center and offices.

Orders are "typed" into a machine at the store (see photo) producing a tape which when run through a sending mechanism makes an identical tape simultaneously in the central office via direct telephone line.

This system provides speeds not possible by mail or messenger, permitting delivery to the stores within 24 hours of ordering. It is also used for payroll, inventory, and sales information.

About half of our operating Divisions had installed DPATS as of year-end, in more than 1,000 stores. We expect to have it in about 1,500 stores by mid-1972.

Order "typed" in store produces tape for instant transmission.

SAFEWAY STORES, INCORPORATED

EXECUTIVE COMMITTEE

Robert A. Magowan
Chairman
Ernest C. Arbuckle
Charles de Bretteville
A. Russell Griffith
Roger D. Lapham, Jr.
Merrill L. Magowan
W. S. Mitchell
Quentin Reynolds
Milton L. Selby

DIRECTORS

Ernest C. Arbuckle
Chairman of the Board
Wells Fargo Bank

J. G. Boswell II
President and Director
J. G. Boswell Company

Henry B. Clay
Vice President

Charles de Bretteville
Chairman of the Board
and Chief Executive Officer
The Bank of California, N.A.

A. Russell Griffith
Retired, formerly Vice President
and Treasurer of the Company

Malcolm P. Grover
Vice President

Lorenzo N. Hoopes
Vice President

Roger D. Lapham, Jr.
Chairman of the Board
and Chief Executive Officer
Frank B. Hall & Co. of California
and Director of Frank B. Hall
& Co., Inc. (New York)

Merrill L. Magowan
Sales Manager
Merrill Lynch, Pierce,
Fenner & Smith Incorporated
San Francisco

Robert A. Magowan
Chairman of the Executive Committee

W. S. Mitchell
President

G. H. Parker
Vice President

Quentin Reynolds
Chairman of the Board
and Chief Executive Officer

Milton L. Selby
Retired, formerly President
of the Company

OFFICERS

Henry B. Clay*
Vice President
Regional Retail Manager

Clifford L. Gant*
Controller

Malcolm P. Grover*
Vice President
Personnel, Public Affairs,
Industrial Relations and
Economic Research

Lorenzo N. Hoopes*
Vice President
Supply Operations

Philip G. Horton*
Vice President
Real Estate, Construction and
Engineering

James M. McGinty*
Vice President and Treasurer

W. S. Mitchell*
President

G. H. Parker*
Vice President
Regional Retail Manager

Quentin Reynolds*
Chairman of the Board
and Chief Executive Officer

Robert J. Van Gemert*
Vice President and Secretary
General Counsel

Jack L. Anderson
Vice President
Kansas City Division Manager

Paul A. Baumgart
Vice President
Corporate Economist

Louis A. Bianco
Vice President
San Francisco Division Manager

C. A. Bradburn
Vice President
Seattle Division Manager

Gerald E. Brown
Vice President
Advertising and Market Research

Beach H. Dean, Jr.
Vice President and Asst. Treasurer
Real Estate Finance

Henry J. Frank
Vice President
Phoenix Division Manager

Floyd H. Gifford
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Denver Division Manager

Frank J. Glasgow
Vice President
Sacramento Division Manager

Paul K. Hendrix
Vice President
Omaha Division Manager

Robert L. Jaynes
Vice President
El Paso Division Manager

Horace A. Justice
Vice President
Dallas Division Manager

Neils V. Lawson
Vice President
Management Information & Services

Robert M. Lyness
Vice President
Retail Engineering

Fred E. MacRae
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Peter P. Martin
Vice President
Salt Lake City Division Manager

W. C. Peet, Jr.
Vice President
Corporate Development

Calvin P. Pond
Vice President
Public Affairs

Loyal M. Pringle
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Grocery Merchandising

Sam E. Raburn
Vice President
Butte Division Manager

James A. Rowland
Vice President
Little Rock Division Manager

Earl W. Smith
Vice President
Southern California Division Manager

R. Earl Templeman
Vice President
Oklahoma City Division Manager

John W. Warthan
Vice President
Tulsa Division Manager

Herman F. Weber
Vice President
Industrial Relations

Basil M. Winstead
Vice President
Washington, D.C. Division Manager

*Executive Officers of the Company

Pictured at right are some of the new Safeway Brand items introduced in our stores in 1971. These are quality products representing good values, exclusive at Safeway. Over the years our brands have won their share of the customers' favor alongside popular national and local brands which Safeway also offers.

EXECUTIVE OFFICES

Fourth and Jackson Streets,
Oakland, California
(P. O. Box 660,
Oakland, California 94660)

TRANSFER AGENTS

The Chase Manhattan Bank
(National Association),
New York, New York and
the Crocker National Bank,
San Francisco, California

REGISTRARS

First National City Bank,
New York, New York and
The Bank of California,
National Association,
San Francisco, California

ACCOUNTANTS

Peat, Marwick,
Mitchell & Co.

ANNUAL MEETING

The 1972 Annual Meeting of the Common Stockholders will be held on May 16, 1972. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 10, 1972. This Annual Report does not constitute part of the proxy soliciting material.

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Safeway Stores, Incorporated

SAFEWAY STORES, INCORPORATED Oakland, California 94660

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